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November 7, 1995

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

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re: Ex Parte Presentation
IB 95-22 Market Entry and Regulation of Foreign-Affiliated Entities

Dear Mr. Caton:

On Monday, November 6, 1995, Kathy Kleiber, Charles Meyers, Elaine McHale, Tom Luciano and I met with Diane Cornell, Chief, Telecommunications Division-International Bureau, Bob McDonald, Peter Cowhey, Doug Galbi, Ken Shagrin, Susan O'Connell and Brian O'Connor to discuss issues relating to the above captioned docket.

Attached are the materials from the presentation on the above captioned docket.

Because the meeting was held late in the day, two copies of this Notice are being submitted on the following business day to the Secretary of the FCC in accordance with Section 1.1206(a)(2) of the Commission's rules.

Sincerely,

Robert Gill

Attachments

cc: Ms. Diane Cornell
Mr. B. McDonald
Mr. P. Cowhey
Mr. D. Galbi
Mr. K. Shagrin
Ms. S. O'Connell
Mr. B. O'Connor

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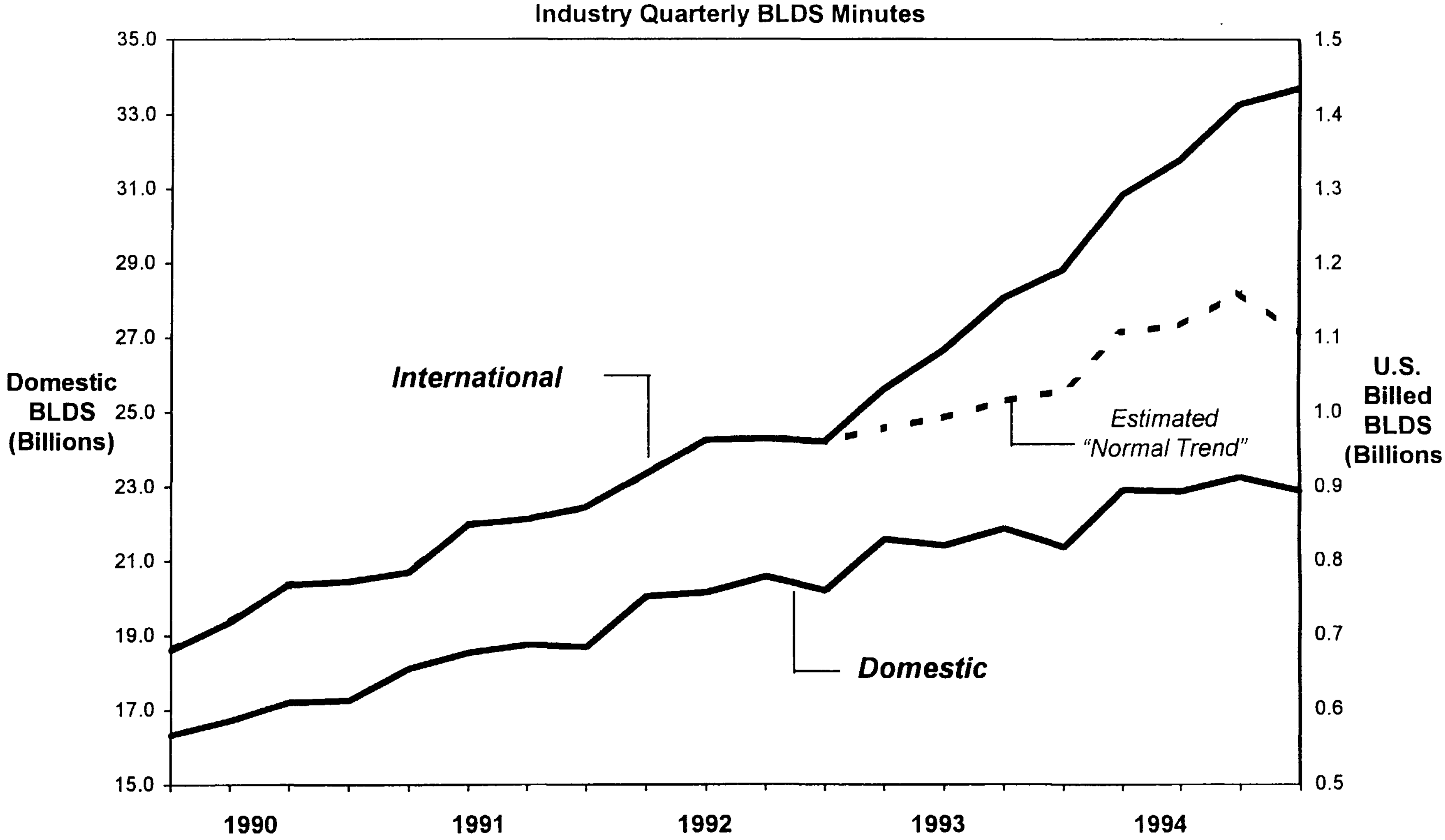
# FCC Report Identified Significant Divergence in International Minutes from Historical BLDS Trends, highlighting problem of non-traditional traffic



# Success in the Future International Telecom Industry will be driven by unfettered access to customers, logical efficient networks and economically rational terms of trade

| Dimension | Today | Tomorrow | Imperatives |
|---|---|---|---|
| **Customer Interface** | • PTT | • PTT<br>• Emerging carriers<br>• Distributors<br>• Direct (AT&T) | • Coverage<br>• Sales effectiveness<br>• Market and customer knowledge |
| **Network**<br>**Configuration**<br>**Ownership**<br><br>**Coverage** | • Bilateral / Star<br>• Consortium cable with 1/2 circuits<br>• PTT gateway and local loop<br>• Separate intracountry & international | • Multilateral / Hub & spoke<br>• End-to-end ownership / control (access - transport - egress)<br>• Seamless / "virtual" intracountry & international | • Competitive costs<br>• Quality assurance<br>• Flexibility<br>• Speed to market<br>• Broad geographic reach |
| **Terms of Trade**<br>**Correspondents** | • Monopoly PTTs | • Competitive TAs<br>• Resellers<br>• New participants | • Competitive costs<br>• Flexibility<br>• Influence global policy planners<br>• Cost based termination rates<br>• Non-discriminatory rates / market symmetry |
| **Transactions** | • Settlement system<br>  • Accounting rates<br>  • Proportionate return | • Access model<br>• Minute exchange | |
| **Cost Basis** | • No relationship between accounting rates and economic costs<br>• Limited opportunity to improve costs through alternative routing | • Competitively determined<br>• Least cost routing is viable | |

# Alternative Views of Market Access

"Beneficial model"

- Foreign carriers seek entry to US market to meet home market needs
- Market access rules would effectively block service to home market
- Market position would be limited to low share reseller, which is not economically viable
- Faced with this position, foreign carriers will take steps to open home market, thus meeting conditions for US market entry
- US customers will be better served and US carriers will be able to compete in new markets

"Harmful Model"

- Foreign carriers seek entry to US market to meet multiple objectives
  - Growth
  - Low cost access to rest of world
  - Meet home market needs
- All objectives can be met under proposed ruling
  - Home market service can be effectively provided through alternative channels
- Once objectives are met, foreign carriers have reduced incentives to open up their markets
- Exploit market asymmetries to "export" industry profitability from US
- US customers may benefit in short term, but harm to long term health of domestic carriers will ultimately hurt customers

## Global MNCs have specialized telecom needs that are best met by companies that can serve them in a large number of multiple markets

Specific requirements include:

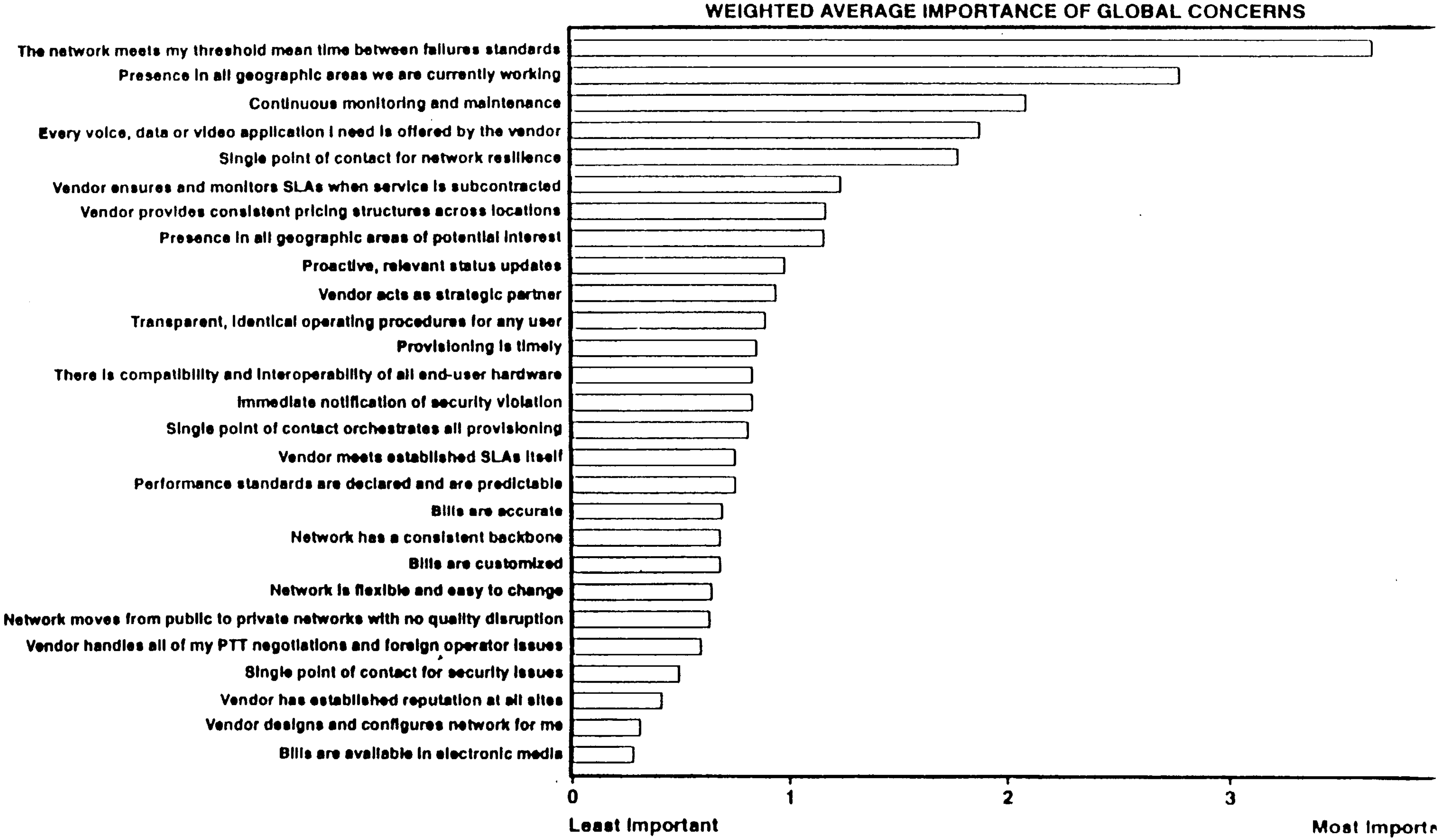
- End-to-end network performance / accountability
- End-to-end provisioning and network management
- Worldwide performance standards
- End-to-end performance guarantees
- Ubiquitous global offerings
- Single point of contact for global service issues

**64% of US based MNCs would migrate 75% of their international and domestic telecom traffic to a carrier that could meet their global needs**

# WORLDSOURCE CUSTOMER SEGMENTATION

## QUALITATIVE CUSTOMER NEEDS ANALYSIS

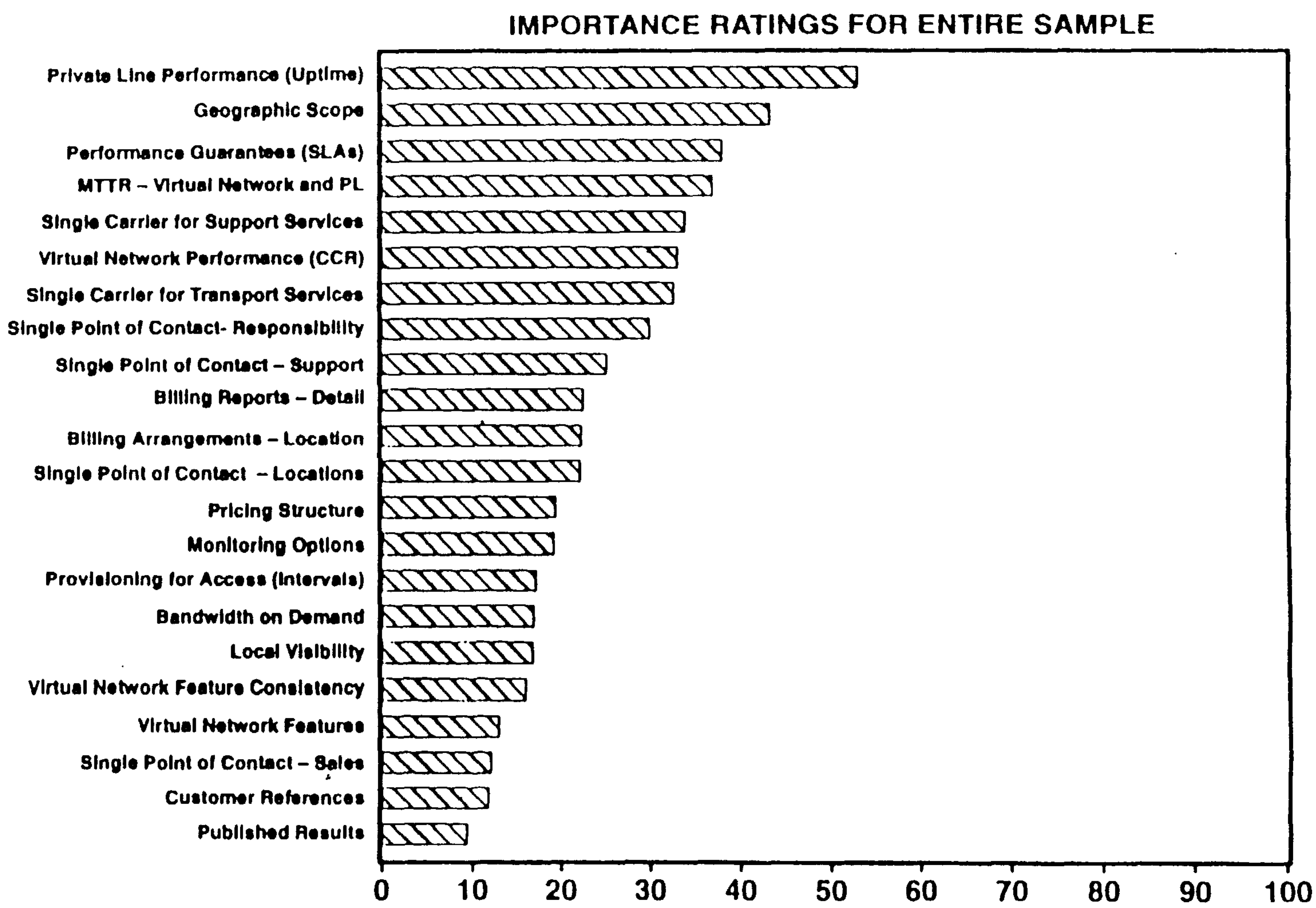
- Interviews with more than 200 telecom managers revealed a large number of stated concerns



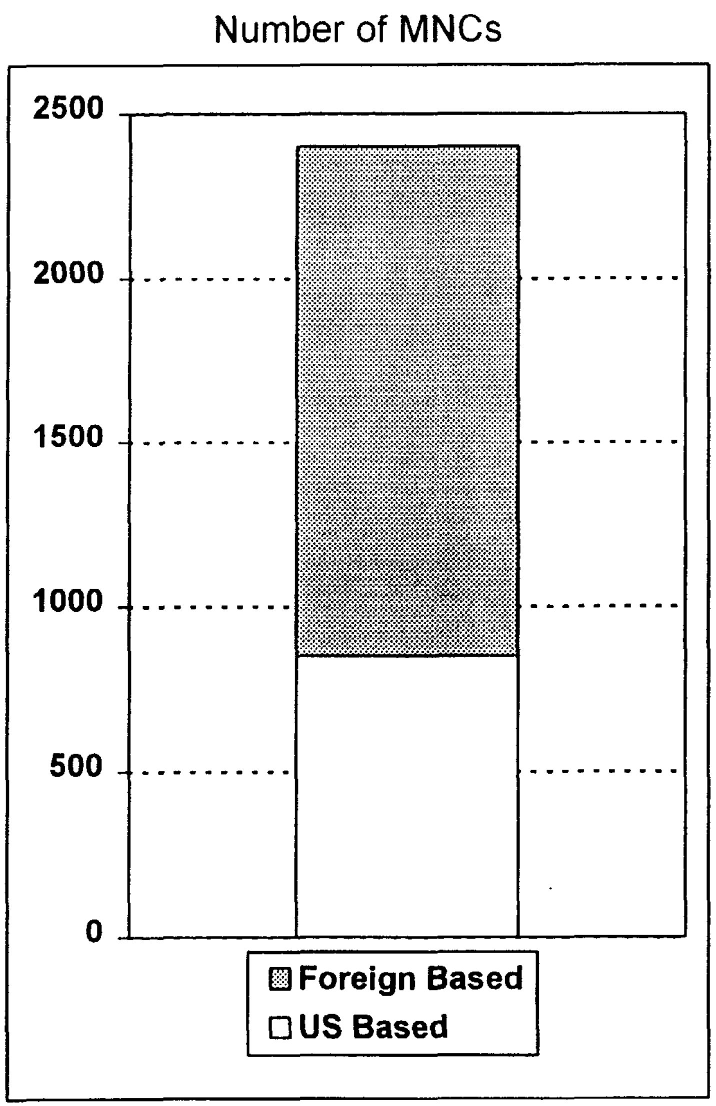

However . . .

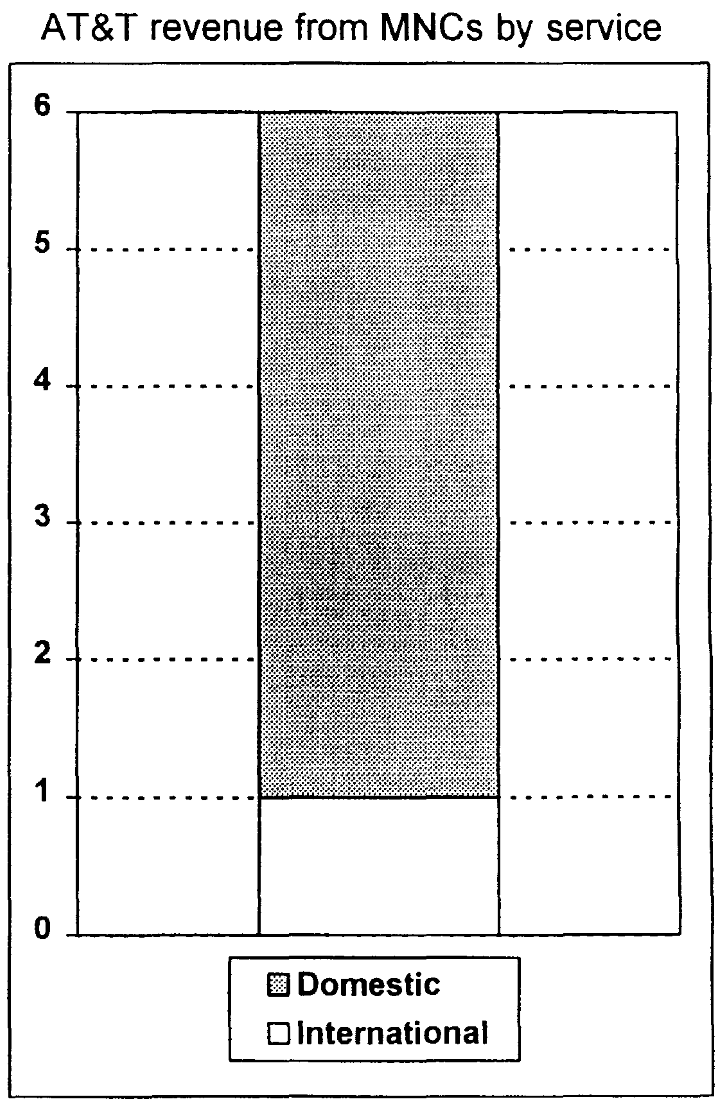
# ATTRIBUTE IMPORTANCE

## ENTIRE SAMPLE



# A limited number of Multinational Companies represent a significant portion of AT&T's total revenue



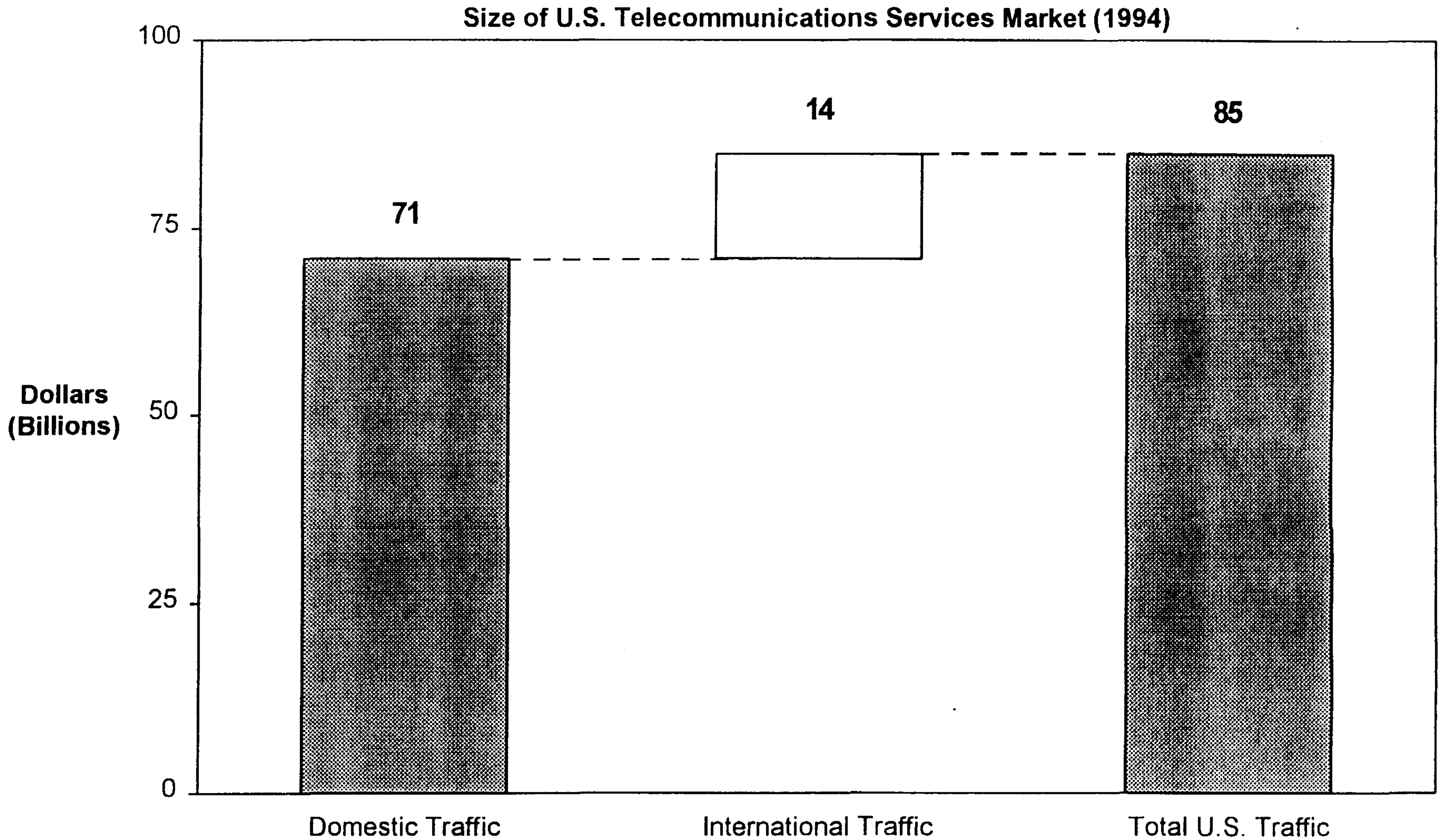
## The strategic objective of WorldPartners was to insure our ability to serve our MNC customers' needs for global service

- Development of multinational consortia to serve MNC requirements
  - Equity investments:
    - BT-MCI Concert
    - FT-DT-Sprint
- WorldPartners formed as cooperative venture to enable participating carriers to meet the needs of their MNC customers while reflecting the differing stages of market liberalization for the participating carriers
- While WorldPartners has attracted 12 major carriers to date, the attractiveness of participation would diminish greatly if asymmetric market access was provided to foreign carriers
  - Open access to US MNC customers
  - Continued protection of their customer base

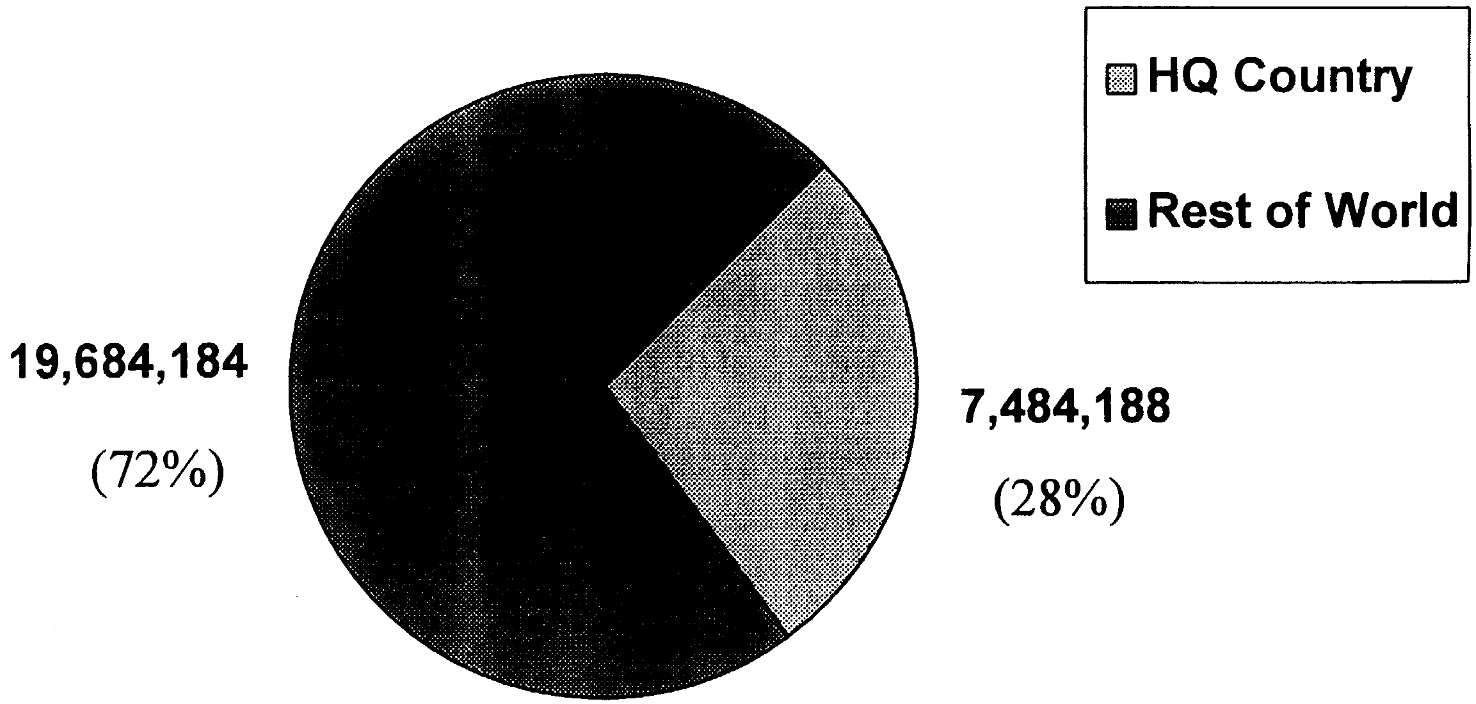
## The strategic intent of new foreign entrants to the US market is not limited to serving their home market traffic

- Growth in monopolistic home markets is relatively slow
- Companies that will face competition in the next 3-5 years will suffer significant erosion of minutes and revenue, forcing them to seek new opportunities
- International expansion represents potential opportunity for growth
- US industry is very logical point of entry
  - Largest market with healthy growth
  - Open regulations
  - Having a base of operations in the US gives foreign carriers better economics for serving the rest of world
- First mover advantage to those providers acquiring early share

# Foreign Carriers Would Like Open Access to U.S. Telecom Market

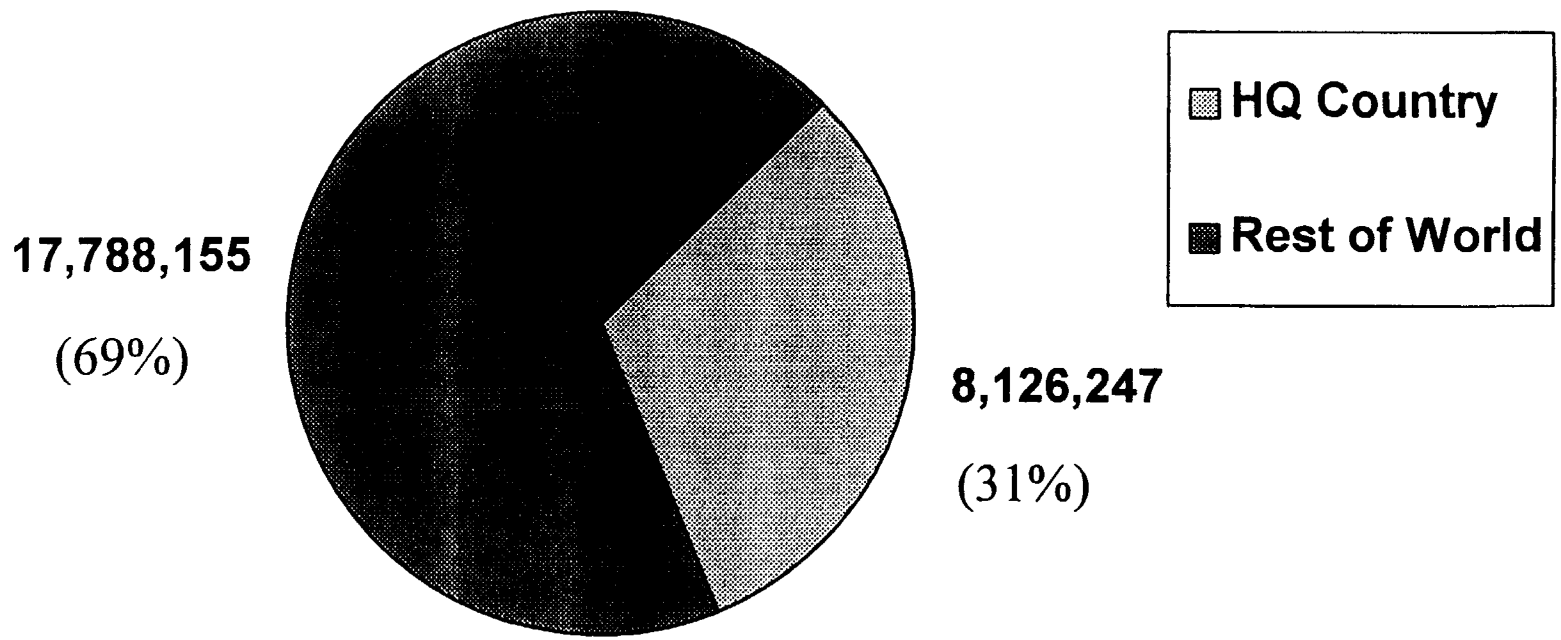


# Non-US Headquartered MNCs have Significant Non-HQ Country AT&T Traffic
# (Minutes of Use)



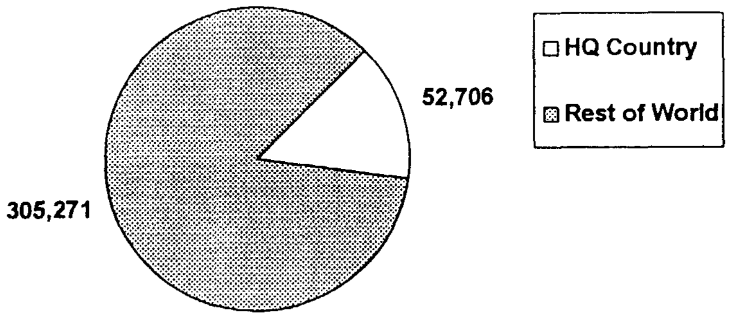

*Sample size (42) MNCs

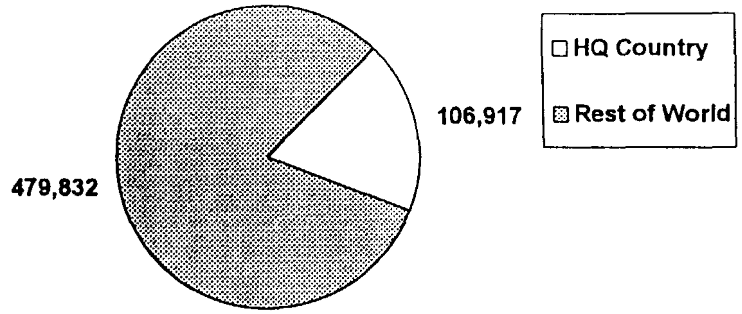
## Non-US Headquartered MNCs have Significant Non-HQ Country AT&T Traffic (Revenue - US Dollars)

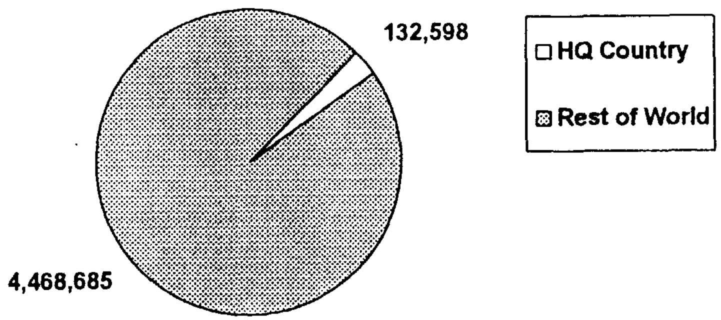



*Sample size (42) MNCs

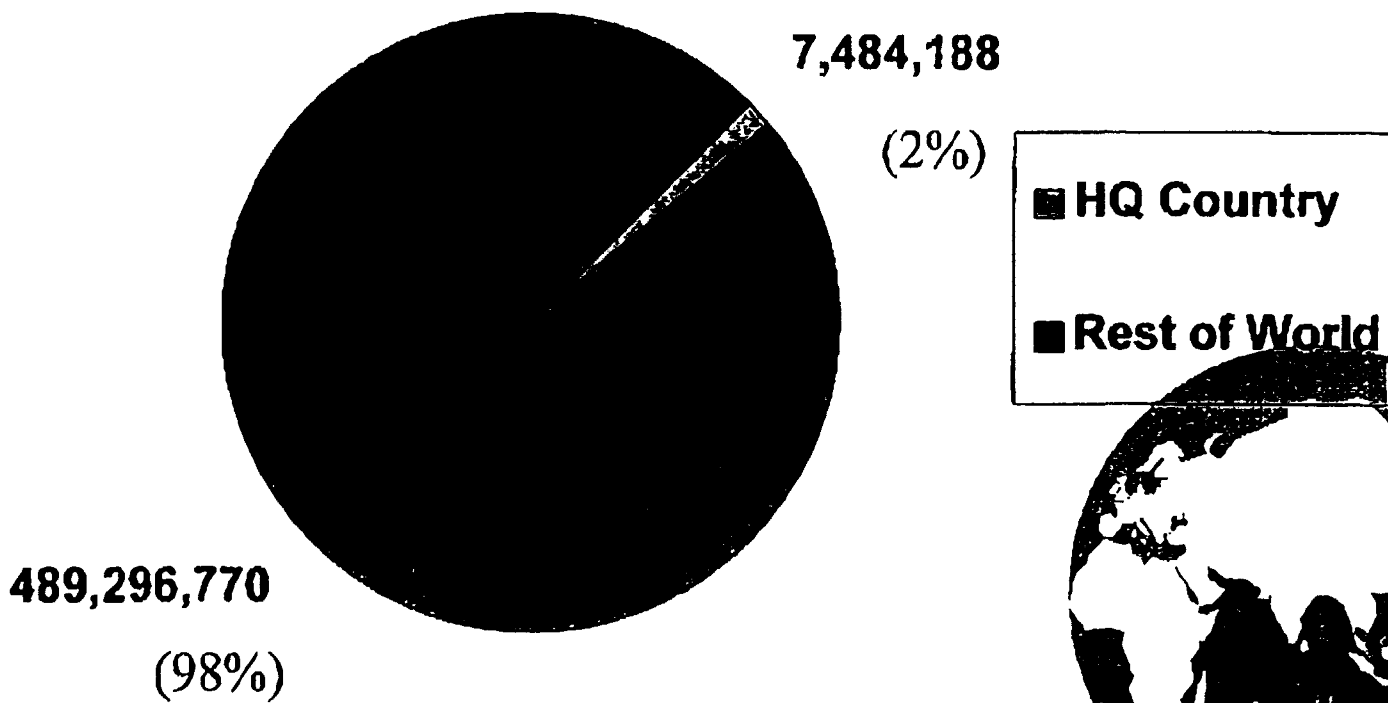
# France Headquartered MNCs have Significant Non-HQ Country AT&T Traffic
# (Minutes of Use)



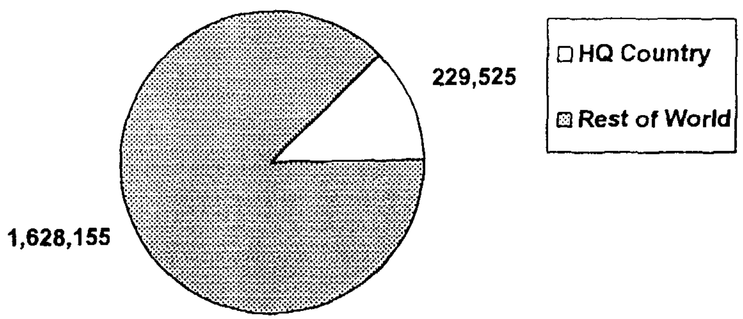
# Non-US Headquartered MNCs with Significant Non-HQ Country AT&T Traffic (Minutes of Use)

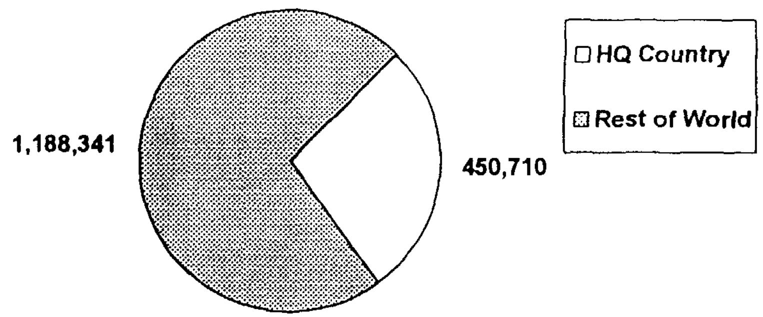



*Sample size (42) MNCs

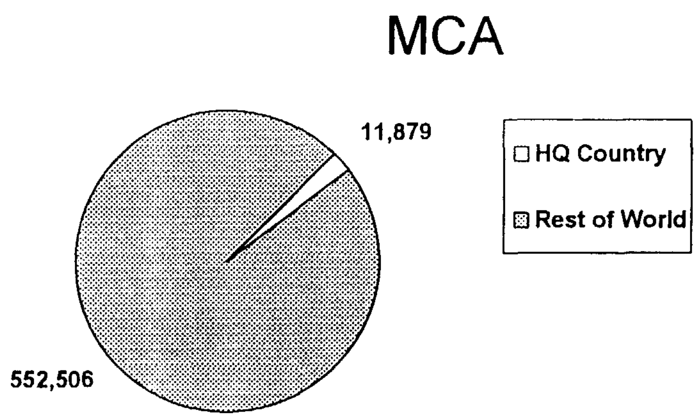
# Germany Headquartered MNCs have Significant Non-HQ Country AT&T Traffic (Minutes of Use)

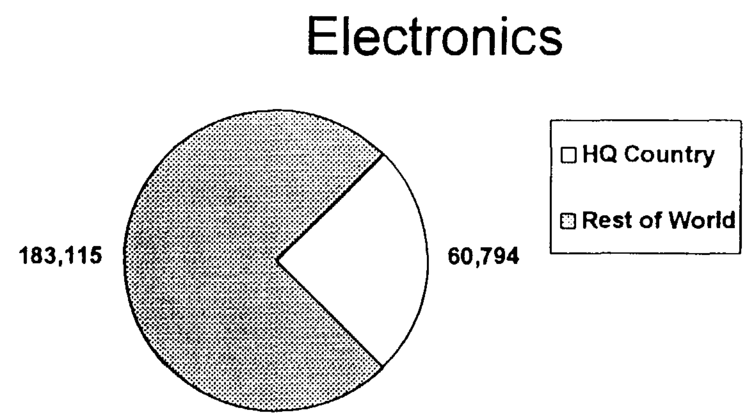
Bank

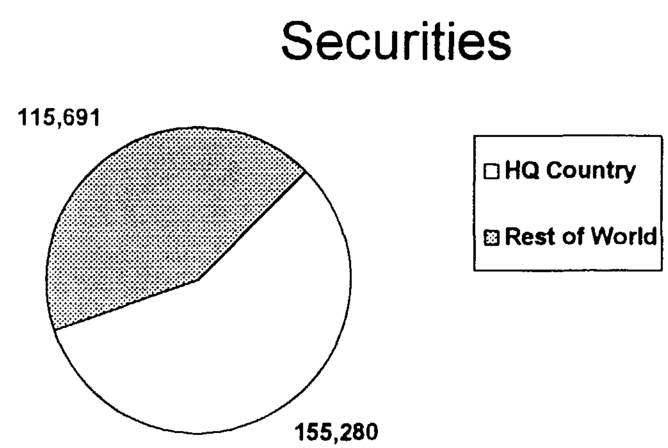


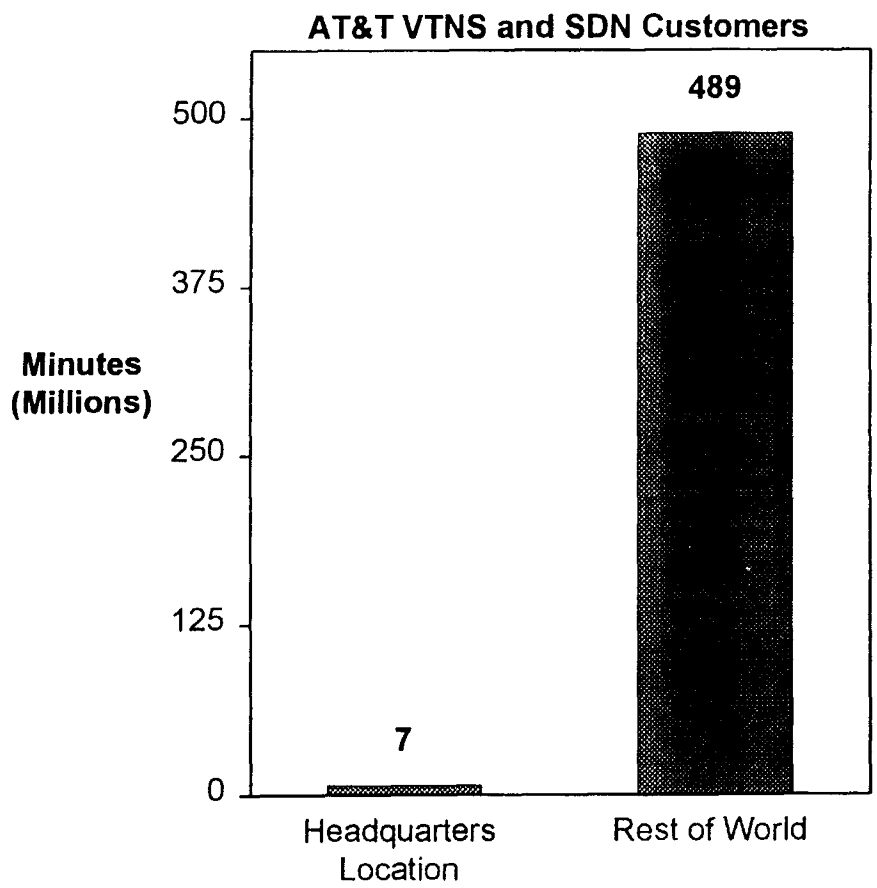
# Japan Headquartered MNCs have Significant Non-HQ Country AT&T Traffic
# (Minutes of Use)

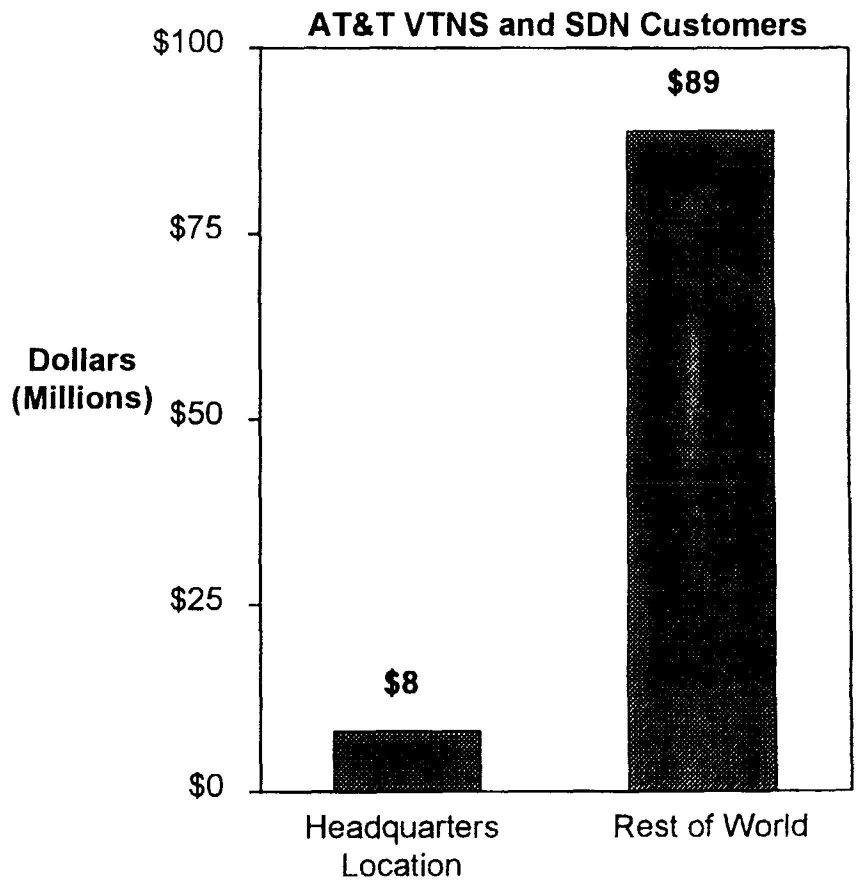


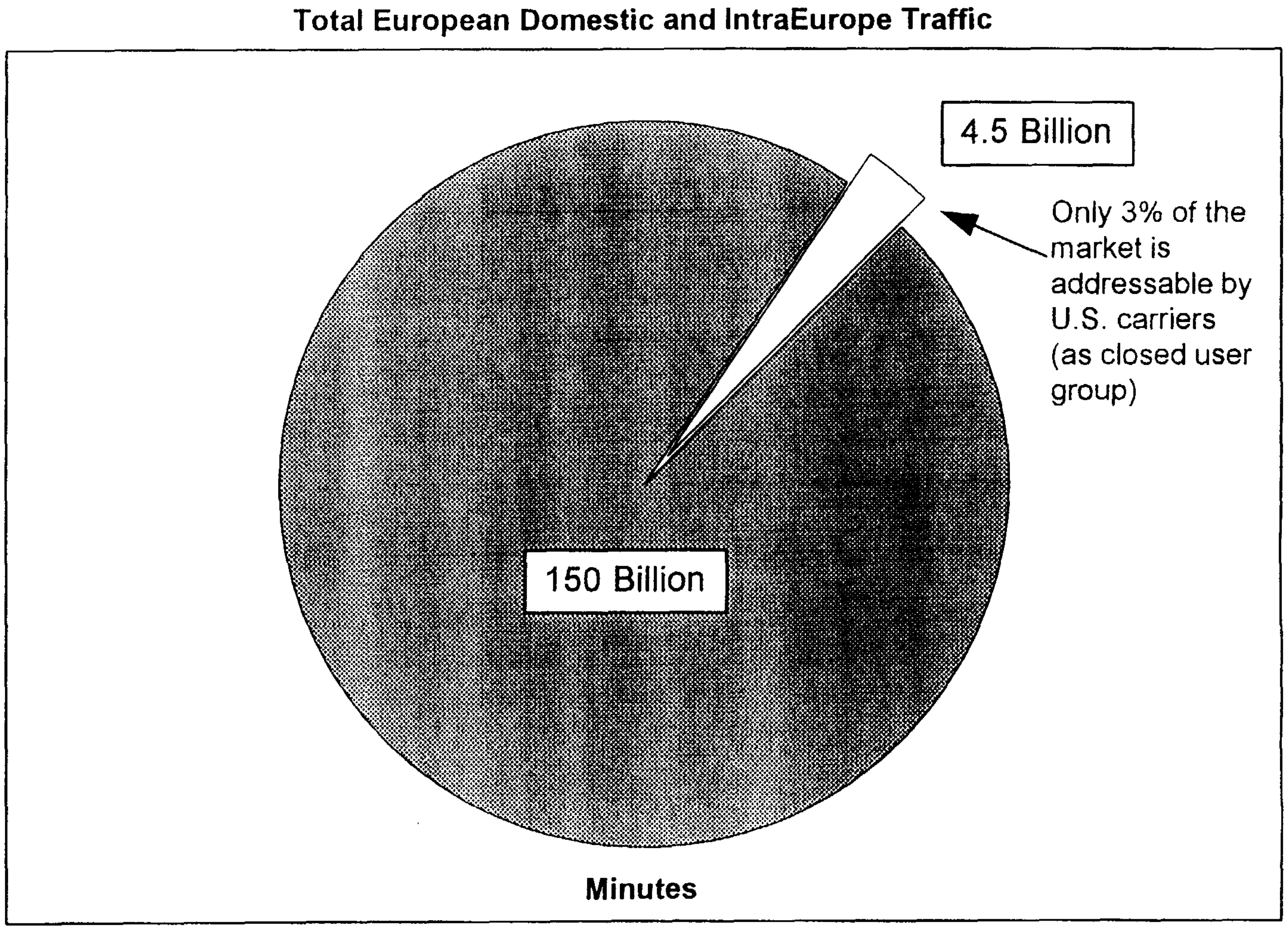
# Non-U.S. Based MNCs Send Very Little Switched Traffic to Home Country Headquarters Relative to Other Non-U.S. Locations




Note: 12 customers
SOURCE: WISDOM DATABASE

# U.S. Carriers Currently Have Access to Only a Small Portion of the European Telecom Market



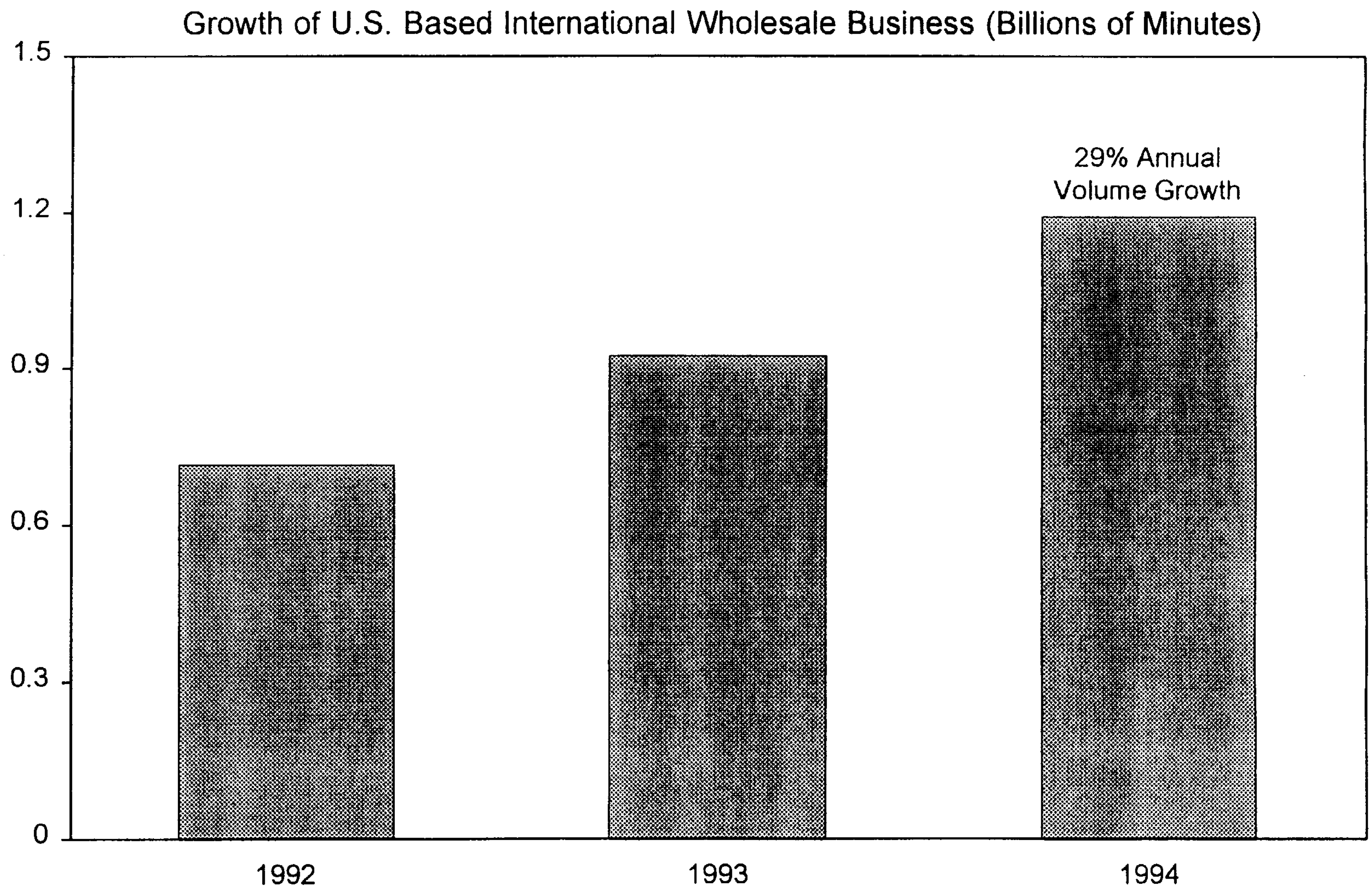
## Global Companies and Representative Traffic Patterns

| Company | Total Minutes | Domestic Minutes | HQ Minutes** | % HQ Minutes to Total | Rest of World Minutes | HQ Minutes / Rest of World |
|---|---|---|---|---|---|---|
| | 17,147,000 | 16,789,000 | 53,000 | .31% | 305,000 | 17.3% |
| | 6,794,000 | 5,166,000 | 229,000 | 3.38% | 1,399,000 | 16.3% |
| | 39,525,000 | 37,886,000 | 450,000 | 1.15% | 1,189,000 | 37.8% |
| | 21,073,000 | 20,509,000 | 12,000 | .06% | 552,000 | 2.2% |
| | 32,302,000 | 27,701,000 | 133,000 | .41% | 4,468,000 | 2.9% |
| | 10,289,000 | 9,702,000 | 107,000 | 1.05 | 480,000 | 22.3% |
| | 6,440,000 | 6,196,000 | 61,000 | .96% | 183,000 | 33% |
| | 906,000 | 635,000 | 155,000 | 20.68 | 116,000 | 134% |

**Note: The following companies have routed voice traffic over private lines to the HQ Country:

700,000 minutes/year
100,000 minutes/year
120,000 minutes/year

**While facilities have been critical for success in the telecom industry historically, the growth of the wholesale market demonstrates the viability of serving the market as a reseller**



## Although international reseller margins are thin, the low asset requirements lead to healthy returns on investment

analysis of international reseller economics

$$\frac{\text{Revenue - Costs}}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}} \times (\text{1-Tax Rate}) = \text{Return on Equity}$$

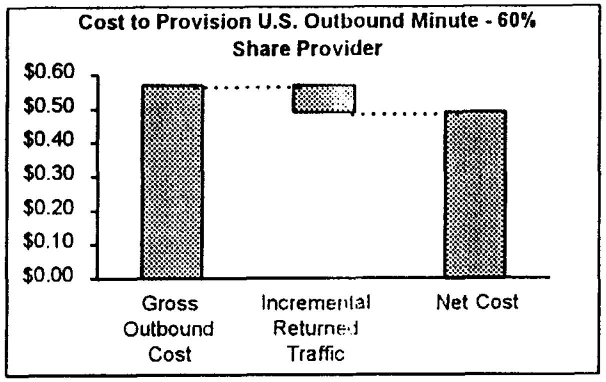
$$5\text{-}7\% \times \frac{8\text{-}10}{1} \times 1^{*} \times (1-0.5) = 20\%\text{-}35\%$$

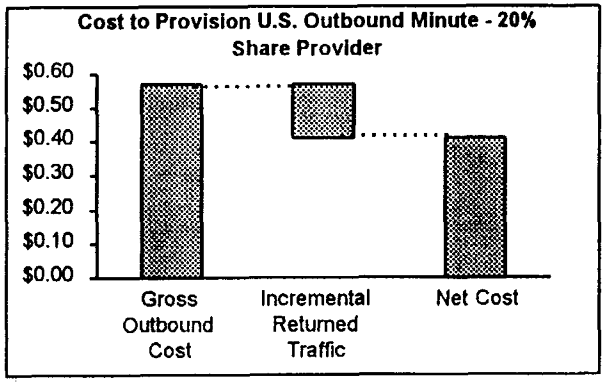
* Assume no debt financing

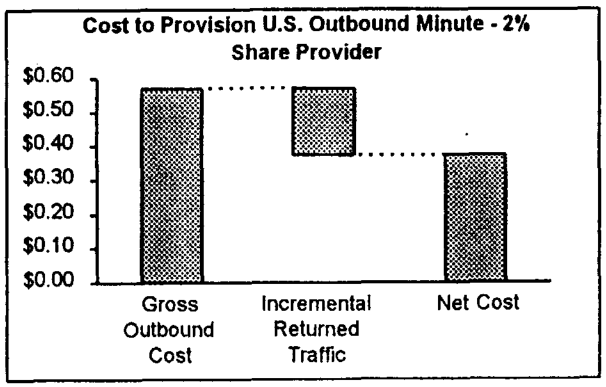
## Economics of Provisioning an Outbound Call

- Revenue for carrier in monopolistic environment: Collection revenue + 100% of net settlement
- Revenue for carrier in competitive environment: Collection revenue + % of settlement determined by outbound market share
- Each incremental minute generates a higher percentage increase in market share for a low share carrier relative to a high share carrier
- This gives low share carriers a cost advantage for pursuing new minutes

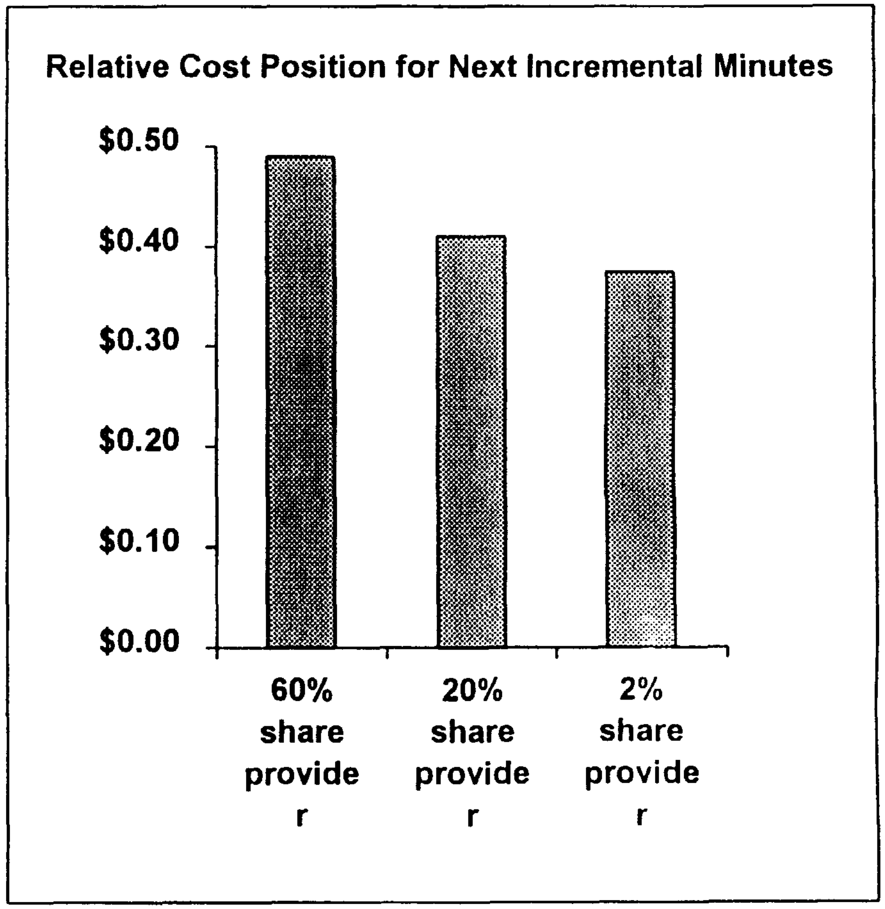
# Provisioning of US Outbound Traffic
# Relative Cost Position




- Low market share carriers benefit from a favorable cost position for incremental traffic due to the structure of bilateral economics



# Provisioning of US Outbound Traffic
# Relative Cost Position - Inputs and Glossary

| Input Category | Value |
|---|---|
| Settlement rate | $0.50 |
| I/O ratio | 0.5 |
| Inbound costs (including LEC termination charge) | $0.10 |
| Outbound costs | $0.07 |

**Glossary:**

- **Gross Outbound Costs**: Settlement rate + outbound provisioning cost
- **Returned Traffic:** Settlement paid back by the foreign administration for returned traffic minus incremental inbound carrying cost
- **Net cost:** Gross outbound cost minus returned traffic